

A Work Project, presented as part of the requirements for the Award of a Master Degree  
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## SEAT in China

Maria Leonor Morgado de Azevedo no.853

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Professor Luís Almeida Costa

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## **ABSTRACT**

Currently, China has the biggest automobile industry in the world. China's economic situation helped the automobile market, as the internal demand of passenger cars increased substantially in the last years. Chinese automobile industry's astonishing expansion over the past years has attracted many foreign automobile groups. SEAT decided to enter the Chinese market, following its expansion strategy to enter new markets.

The purpose of this study is to analyse and understand the strategic entry of SEAT in the Chinese market, hence the choice of an explanatory case study (Yin, 2003). This study extends this analysis by examining the Chinese automobile market, more specifically the demand, the market segmentation and the intensity of competition, reviewing the SEAT company history, their competitive positioning and resources.

I conclude that, although the Chinese market has growing potential, SEAT has failed to achieve its initial objective. The company has not been able to create a brand awareness in the Chinese market, unlike other foreign brands that have managed to accomplish that. This occurred, mostly, because of the high prices in comparison to its competitors due to additional import cost, such as import duties, transportation and distribution.

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## THE CASE

In April 2011, the former Chairman of SEAT, James Muir, announced in the Shanghai Motor Show that SEAT would expand to Chinese market in 2012. *“SEAT is a brand on the move – a brand that is growing in its existing markets, with loyal, passionate customers’ base, and now expanding into new markets. This is the most exciting time in the company history and I am confident SEAT will establish a unique position in the Chinese market, as we have in every market we operate”* (SEAT Press, 2011).

The brand strategy was to expand to a new market, and China has been showing outstanding economic growth, as well an increasing automobile demand. James Muir believed that China was a great market for brand expansion, since demand had been specially growing around the young customers that sought for sporty alternative and differentiated design.

SEAT’s objective was to launch the brand in April 2012, starting with eight showrooms<sup>1</sup> located in urban areas, defined as highly dynamic. After entering the Chinese market, SEAT progressed at a slower pace than expected, with 2,200 units sold and 12 dealerships open in 2012, compared to the planned 4,000 units and 15 points of sale.

The actual SEAT Chairman, Jürgen Stackmann, stated in an interview to Just Auto that SEAT was considering building cars in China, and the initial plans to expand to China from the SEAT base in Martorell failed because of high import duties and distribution problems (Brooks, 2013). Was SEAT ready to compete in the Chinese market? Did SEAT had the right strategy? How can SEAT become more competitive in the Chinese market?

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<sup>1</sup> Changsha, Chengdu, Chongqing, Nanjing, Shenzhen, Suzhou, Wuhan, Zhengzhou

## AUTOMOBILE INDUSTRY

On a global perspective, the automobile industry is one of the most vital industries in the world. The automobile sector has an impact in the economic activity in a variety of ways. It is a global driver for innovation, economic growth, income increase, and a source of employment.

When, in 2008, the global economy was stuck in the global recession, worldwide vehicle production experienced a decrease of 3.7% relative to the 73 million units built the previous year (Exhibit 1). The impact of the downturn was particularly pronounced for U.S. automakers, with a decrease in production of about 19.3% in 2008 and 34.3% in 2009 (Exhibit 2). The major U.S. assemblers struggled to reach the end of the year, whereas China's automobile industry continued on the path of growth, though at slower rates. Over the past eight years, the automobile world sales grew on average 4.4% each year. In 2010, the automobile market reacted positively after the 2008 crisis, increasing sales by 14.1%. The automobile sales growth rate stagnated in the following years, with values of 4.4%, 4.9% and 4.5%, in 2011, 2012 and 2013 respectively. (Exhibit 3).

## CHINESE MARKET

The expansion of China's automobile industry has been influenced by the political and economic situation of the country. The industrialization in China has been centrally determined by distinct industrial policies. In 1953 the construction of the First Automobile Works (FAW), in Changchun, was established, with the technological assistance of the former Soviet Union (Tao, 2004).

As China's economy developed, the automobile market did, however, undergo some changes. During the period of the Centrally Planned Economy, the biggest domestic automakers were unable to meet the domestic demand, which were controlled by the central government. Therefore, during the 80s, foreign automakers were allowed to form joint ventures with state-owned Chinese partners, where foreign ownership was limited to 50 percent. For example, SAIC and FAW with Volkswagen and Dongfeng with Citroen. The government goal was to quickly develop a car

industry, gaining technological and operational expertise from foreign companies while still controlling the industry. After the 90s, several national corporations entered the industry, such as Brilliance China Auto, Chery Automobile and Gelly Automobile.

The expansion of the Chinese Automobile Industry has increasingly attracted attention from automakers around the world. In 2001, China started to become more integrated with the world economy, especially thanks to China's WTO membership (Bhadrapur, 2012). The market liberalization promoted an increase in foreign investment, as well as imports of cars and car-parts.

### **The Demand**

The main driver of the Chinese automobile industry is the country's economic development. China showed, over the past nine years, an average of 10.1% GDP growth (Exhibit 4). The internal demand for passenger cars increased substantially, driven by rising incomes and a growing middle class creating a larger consumer culture. In addition, it was also caused by supportive industry policies from the Chinese government, which continues to play an important role in encouraging the growth of the industry.

China automobile sales have shown very rapid growth, on average of 19.04%, in the past nine years, and incredible growth levels of 45.5% in 2009. In 2010, the Chinese automobile market reached the world's record of vehicle sales, with 17.79 million units, and has grown to impressive 21.95 million units sold, 4.05 million in the commercial and 17.9 million in the passenger car segment, in 2013 (Exhibit 5).

The sales growth fell to 2.5% in 2011, due to a slowdown in credit conditions, that are becoming tighter, and subsidies for automobile purchases, offered between 2009/2010, were removed (CEIBS, 2004). The government has also imposed new restrictions on licensing, so as to reduce traffic on major cities. Nevertheless, the growth rate rose again in 2012 to 4.3%, and to 13.9% in 2013 (Exhibit 6).

Regardless of rapid sales growth over the past years, car ownership rates in China remain low by international standards. China still has a third of the global average (44 per 1,000 people in 2010 vs. 124 globally) and far below the average for OECD economies (402 per 1,000 people in 2010) (Exhibit 7).

According to McKinsey (Wang, Liao and Hein, 2012) *“the growth of China auto market will slow to an average of 8% a year between 2011 and 2020, still very fast by developed-world standards”*. McKinsey’s forecast also alerts to the fact that, by 2020, China’s new car sales are expected to exceed the figures of the European and North American markets, reaching 22 million units per year – a record annual growth of the global automobile market of 35%.

### **Market Segmentation**

Vehicles in China do not have a formal characterization or regulation; hence, the automobile Industry can be divided into two segments: Commercial Cars and Passenger Cars. In each category, they can also be sub-divided. According to the Organisation Internationale des Constructeurs d'Automobiles (OICA), the Passenger cars category can be sub-divided into three sub-categories: Sedan, Multi-Purpose Vehicle (MPV) and Sport Utility Vehicle (SUV). Sedan cars can be also segment by model-sizes in A, B, C, D, E, and F. According to McKinsey (Wang, Liao and Hein, 2012), China’s forecast for passenger car sales demand for 2011 was 80% of Sedan, 15% of SUV, and 5% of MPV. In 2013, passenger car sales was 66.9 % of Sedan, 16.67% of SUV, 7.28% of MPV and 9.06% for Minivan, showing that Chinese customers prefer the Sedan segment. The analysis of Table 1 allows concluding that, in 2013, the first nine best-selling Sedans are notchback models, as well as the majority of the 100 best-selling Sedans. It was also predicted that, by 2015, the demand for the Sedan segment would decrease to 76%, and to 73% in 2020. The only segment for which demand would increase is the SUV cars, 19% in 2015 and 22% in 2020. MPV will maintain 5% demand until 2020.

Commercial vehicles can be sub-divided into three categories: Light Commercial, Trucks, and Buses. Commercial vehicles sales in China suffered negative impact by the economic slow-down. While declining by 6.3% from 2010 to 2011, the commercial segment experienced a further decline of 5.5% in 2012 to 3.81 million units, compared to 4.03 million sold in 2011. Before 2010, the commercial vehicle segment had a positive growth of 22.3 %, between 2005 and 2010(Exhibit 8). In contrast, passenger car sales grew about 21.7% on average in the past 8 years. Lower growth levels were featured only in 2008 (7.3%) and between 2011 and 2012 (5.2% and 7.5% respectively) (Exhibit 9).

Over the past few years, it may be verified that the passenger car segment had always overlapped the sales of commercial vehicles. Presently, passenger cars is the segment that holds the largest share in sales (80.3%), compared with commercial vehicles (19.7%) (Exhibit 10).

### **Intensity of Competition**

In order to satisfy the Chinese automobile demand, both foreign and native automakers rapidly increased investment in the industry. In recent years, the production of automobiles in China rose by 19.5% on average. In 2008, there was a significant drop in the production growth rate to 5.2 %, offset in the following year by an astonishing growth of 47.6% (Exhibit 11).

Between 2004 and 2012, the number of vehicles produced in China grew, on average, 15.6%, to approximately 9.35 million units per year (Exhibit 11). In 2010, China has become the world's largest producer with 18.2 million units, surpassing the world biggest automobile producers: Japan with 9.6 million units, the U.S. with 7.8 units and Germany with 5.9 million units (Exhibit 12).

The astonishing expansion of the Chinese domestic industry experienced great development, not only because of the positive domestic demand growth for passenger cars, but also due to international demand for reasonably priced automobile components. This attracted the attention of the main foreign automobile corporations that were eager to expand into the market, especially for

foreign firms that have been able to support their global financial results by the company's presence in China. Nearly all of the world's top automobile assemblers and suppliers have already invested in China – the competition is becoming increasingly fierce.

The rise of China as one of the major producers, in 2010, was also sustained by an abundant supply of low cost labour. In 2002, a manufacturing employee in China earned, on average, 0.6\$ per hour, having this value increased to 1.74\$ in 2009. The hourly compensation rose to 13.3% per year during this period (Exhibit 13). In 2009, compensation per hour of a manufacturing employee in Germany was 49.56\$, 33.53\$ in the U.S. and 30.36\$ in Japan (Exhibit 14). Compared with the major automobile producer countries, China has substantially lower rewards, making it, thus, a very attractive market for locating production facilities given the reduced labour costs.

Recently, it is becoming easier for foreign automakers to enter domestic markets and China has few legal barriers to protect the existing companies from new entrants. Even though, Chinese government often protects its market by introducing high import taxes.

The automobile industry can be considered very concentrated, with the top 10 domestic manufactures having 86% of the Chinese's revenues (Exhibit 15). It is important to take into account that all of these manufacturing groups produce for more than one brand, including foreign and domestic brands. Regarding the international groups in China, the top 10 represents 49% of the Chinese revenues (Exhibit 16), which demonstrates that foreign brands have the customers' preferences comparing to domestic brands.

China's automobile market is transiting in its market dynamics, whereas in the past few years the market has behaved as "pull" (demand driven), and since the last 4 years it is adopting typical "push" (offer driven) behaviours. As an example, price discount offered to customers has increased from 1.5% in 2010 to 5% in 2013. This is mainly due to the increasing importance of the Chinese market



for all brands combined with the declining situation in their traditional markets, such as Europe and the U.S. to achieve their global sales volumes.

Nowadays, customers search for information before purchasing a car. They compare brands and models, gaining more negotiation power. Customers now have the power to negotiate payment terms, financing rates, trade-in values of the leasing and the possibility to buy cars from the previous year with high discount. Customers can easily choose alternative car brands and they are very price sensitive, basing their decision on vehicle cost and performance. Vehicles with improving price/performance trade-offs relative to present industry products will also determine the customer's willingness.

## SEAT

Sociedad Española de Automóviles de Turismo or SEAT started out in 1950 with the help of the Instituto Nacional de Industria and an alliance contract with Fiat. The construction works for SEAT's Zona Franca plant began on 1950 and the opening day came on June 5, 1953. SEAT cars were simply rebadged and slightly modified Fiats. When, in 1981, Fiat pulled out of the deal, the Spanish manufacturer needed the expertise and funds of a much bigger and older car producer. This time SEAT would turn to Germany for a partner and it would find it in Volkswagen (VW), with whom it signed a deal in 1982.

After that, SEAT cars started achieving a certain recognition in European markets based on their Mediterranean design combined with German technology, and started exporting to Europe in 1983. Soon, the brand became a lot tighter as, in 1986, the German automaker purchased 51% of SEAT and then increased to 75% by the end of that year. Just 4 years later, VW bought the whole of SEAT, owning 99.99% of its shares.

## Competitive Positioning

SEAT offers its customers a unique combination of Mediterranean design, dynamic performance and high quality German engineering and technology, and establishes a strong dealer network.

SEAT's target groups are those defined as "joy" and "lifestyle", meaning those focusing on self-realization, personal independence and freedom, being open to new ideas and influences, caring about balance between job, leisure and self-enjoyment. These groups are composed, mainly, of males under 30 years old, either single or married, mostly without children, with medium or high education, students, graduates and young professional in their first work experience, with medium incomes.

SEAT's promise is to deliver "ENJOYNEERING" to its customers. To live up to this brand promise, SEAT incorporates three core values and nine sub-values into its products: **Dynamic** (Sporty, Exciting and Modern Tech), **Young Spirited** (Passionate, Urban and Progressive), **Design Driven** (Detail, Individual and Tempered).

## Resources

SEAT is the sole active Spanish brand with a mass production potential and capability of developing its own models in-house. The company has a strong brand reputation and possesses distinctive resources, which ascribes the company competitive advantage. *"We define firm resources as all assets, capabilities, competencies, information knowledge and reputation that are owned or controlled by the firm and that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness"* (Cool, Almeida Costa, Dierickx, 2006, p. 55).

Integrated into the VW Group organizational structure, SEAT's China business unit is part of the multi-brand group hosting all the group brands exploiting and sharing resources from the group. *"A firm achieves a competitive advantages in a given market whenever outperforms its competitors"*

(Cool, Almeida Costa, Dierickx, 2006, p. 55). A competitive advantage that allows the firms recording great sales growth at both the domestic and international levels.

Among several resources, **innovation** seems one of SEAT's core competences. The innovation projects of the VW Group make the corporate brands more competitive than in other industries. In 2011, the Group secured 3,182 patents, of which 1,418 were in Germany and 1,754 abroad. The large number of patent applications indicates the highly innovative nature and prevents the competitors from imitating the technologies.

Even though the worldwide sales revenue of €6.1 billion and 6.9 €billion in 2012 and 2013, and the fact that operating profit has been negative in 156 million and 152 million euros, respectively. The VW Group recorded sale revenues of €197 billion euros and an operating profit of €11.7 billion euros in 2013 (VW Group Annual Report, 2013). Therefore, second resource is **financial stability and flexibility** that Volkswagen Group guarantees to their associated brands.

SEAT also gains competitive advantage through its superior **physical resources**. According to the VW Group report, it operates 106 production plants in 19 European countries and a further 8 countries in the Americas, Asia and Africa. Although the SEAT assembly plant is only located in Spain and Portugal, the VW Group is building many components in-house, across the several plants, instead of buying those components to other suppliers, they reduce cost and increase profit from in-house production.

The VW Group **control system** by IBM Demand Workplace Solution can be considered as a key resource. It is designed to simplify and automate the process by which employees and suppliers capture, access, analyse and use information. Its system improves the capability to consolidate technology and production skills into competences, so the company can adapt quickly to changing opportunities, such as price changes, competitive issues or supplier-related developments.

Another main resource of SEAT, which contributes to the company's ability to differentiate its products, is a distinctive **combination of German Engineering with Mediterranean design**. This resource can also be aligned with **product development**; SEAT has placed considerable focus on developing new product, and has concentrated in taking various approaches to reducing fuel consumption and emission levels, integrating a wide range of innovations into fuel-efficient and low emission mobility solutions.

Furthermore, the **manufacturing capabilities** in the VW Group also play an important role in helping SEAT to achieve competitive advantage. The modular strategy implemented by VW enables it manufacturing diversified products at competitive costs, thereby allowing it to maintain the individuality of the models. The VW Group factories become multi-brand facilities, allowing VW, SEAT, Skoda and even Audi to build on the same line, being able to switch production, enabling the facilities to run at much higher capacities.

## SEAT IN CHINA

Following the company's strategy expansion into new markets, SEAT decided to enter the Chinese market. Its initial objectives were to open 15 dealerships and sell 4,000 units by the end of the year. All of the dealership selected regions have between 5 and 10 million inhabitants, with GDP per capita income above average and growing industries.

The Spanish brand plans were to launch, as well, for the first time in China, its new brand identity: a new logo and a new dynamic to engage its customers, state-of-the-art dealerships that have a new design and the latest technologies, which reflects SEAT's core value. The aim is to appeal to all its clients' senses: sight, hearing, touch, smell and taste.

SEAT's market penetration approach was to enter the Chinese market as an imported brand from Europe, belonging to the VW Group with high quality and trustworthy, at a premium price that not all can afford. It intended to offer modern, sporty and technological cars to young-at-heart

people who enjoy living, driving, who like to feel unique, different from the crowd and open to new or unknown products.

SEAT's objective was to establish the brand in China, increasing brand awareness to make it familiar to customers, offering a unique combination of Mediterranean design, dynamic performance and high quality German engineering and technology, and establishing a strong dealer network. The brand also wished to create a high-value brand image through imported market as a clear positive differentiation to the remaining volume brands.

Its target group are youth-at-heart, open-minded, self-confident, joyful and urban males, under 30 years old, either single or married, mostly without children, with medium or high educational level. Finally, its competitors in China are other imported car brands or even international brands with local production with similar products (same segment / bodyline). The strategic positioning in China is below Volkswagen and Volvo and against Fiat and Mazda.

The product range of SEAT China was a set of the top models, only if compared with the Europe standards. According to SEAT, its products' strengths are the emotional eye-catching design, dynamic striking character, thrilling sport driving and fun-to-drive, including the most modern technologies, and the most premium and high specifications available.

The brand focused only in A and B segments, differentiating from its competitors by providing superior products in terms of quality, design, innovation and technology. Such attributes are unique values that customers appreciate and are willing to pay for a premium price.

SEAT intentions has been to start launching the Leon model and, by the end of 2012, it intended to present the Ibiza family model. Furthermore, it also wanted to extend its options to the Alhambra model.

At this moment, SEAT China offers three models: Ibiza within A0 segment with hatchback bodyline, and four versions of the Ibiza model are available: Style, FR, Station and Sport Coupé.

The Leon model falls within the A segment with hatchback bodyline. Leon is available in three versions: FR, FR Plus and Cupra. Finally, the Alhambra models fall within the B or MPV segments, with only one version. Ibiza's price range is between 149,800 and 188,800 RMB, Leon is from 243,900 to 294,600 RMB and Alhambra is from 299,200 to 365,700 RMB. SEAT China also provides after-sales services for its customers: car maintenance and repairs.

Two of SEAT's core worldwide competitors within the imported market are Opel and Ford. Opel is still not present on the Chinese market, but Ford is present and is competing within the same segment with the Focus model. Focus is now produced in China and, in 2013, it sold 207,376 units; moreover, the Focus model price range is from 104,800 to 148,800 RMB. Overall, Ford sold 678,951 units in China.

The absence of A and A0 segments on the Renault portfolio in China makes Mazda and Fiat, currently, the two brands that suit best the SEAT brand positioning within the Chinese imported brand market. Mazda offers two models, Mazda 2 (cost 75,800 up to 101,800 RMB) and Mazda 3 (cost 112,800 up to 149,800 RMB) that fit within the A0 and A segment, and both models are assembled in China. Fiat only offers one model in the same segment, Ottimo (cost 95,000 up to 145,000 RMB), which is also produced in China. In 2013, Mazda sold 184,257 units and Fiat sold 48,375 units. Finally, there are Kia and Hyundai, which do not fit into SEAT's positioning, but they are important to keep as reference due to their strong presence in the Chinese market and high sales volumes (Hyundai sold 1,030,808 unit and Kia 546,766 units). Both brands have models in the A0 and A segments, and are producing in China. Comparing with the main competitors, SEAT presents much lower numbers. According to SEAT, one of the main reasons for the weak sales is the fact that the brand is still unknown in the Chinese market (VW Group News, 2014).

Since it opened its first eight dealerships, SEAT has sold approximately 2,200 vehicles in the first year, numbers that are far below the 4,000 units initially predicted (Yan, 2011). The Spanish brand also forecasted to open more dealerships, up to 15 dealerships in total, but only opened four more. In the first three months of 2013, the brand only sold 539 units, 771 units at the end of nine months, ending the year with merely 1,100 units sold. Moreover, in the first quarter of 2014, it only sold 179 vehicles, presenting numbers far below the ones originally predicted (VW Group News, 2013/2014).

As an imported brand produced in Europe, SEAT production costs are higher than its competitors' that have already started to produce in China. By producing abroad, SEAT has to face other costs associated with the importation, such as the import duties imposed, as well as the cost of transportation and distribution. These extra costs are reflected in the price of automobiles, forcing SEAT to charge higher prices than its competitors do (though to position itself as a premium brand imported), in order to gain profit margins.

Despite SEAT reputation and brand recognition, it continues to be unknown in China (Brooks, 2013); this lack of brand awareness prevents the brand from getting new customers from other brands.

Finally, as an imported brand, SEAT assumes the entire risk. Assuming that SEAT starts producing in China, it would be mandatory to have a partnership with a local manufacturer, which would take half the risk along with the brand.

## DISCUSSION QUESTIONS

### **1. How attractive is the Chinese Automobile Industry?**

The attractiveness of an industry depends not only on demand size and growth, but also on competition intensity. The competition intensity in a given industry is largely determined by the industry structure. *“The structure of the market can profoundly affect the conduct and financial*

*performance of its firms*” (Besanko, 2013). According to Porter (1980), the competition intensity in a certain industry require five forces: Context of strategy of a rivalry of enterprises, the threat of potential entrants, the threat of substitute products and services, and also customers and suppliers’ bargaining power.

In recent years, China has become the world’s fastest growing automobile industry producer and seller. Chinese automobile market sales have grown 19.04% on average in the last 9 years. A McKinsey forecast predicts that, although the automobile market will continue to growth, average growth will slow down to 8% until 2020.

The average car ownership in China, in 2010, was 44 car per 1,000 people, a low number comparing with the world average of 124 per 1,000 people and with the OECD economies of 402 car per 1,000 people. These figures show that China has a high growth potential, and in a market with a high growth levels, it is less likely for companies to start a price war. In order to satisfy the increasing demand, the production has also grown on an average 19.5%, and, in 2010, China became the world’s biggest producer.

The rapid ascension and growth potential of the Chinese market attracted several international automakers that are greedy to expand to a new market, since China has few legal barriers to protect the existing companies from new entrants and the car production costs are lower than in the country of origin. The tensions have begun with all the world’s leading global automakers building production facilities and seeking to dominate the local market. Consequently, there is expected possible high retaliation from existing companies, if new companies bring innovative products and ideas into the industry. Nevertheless, the industry is very mature and it has strongly reached economies of scale. Therefore, to survive in this market, key economies of scales must be obtained. Moreover, customers nowadays have more access to information; they search for information before choosing which car they wish to purchase. They compare models, versions and brands,



gaining more negotiation power. Customers have become more price sensitive and can effortlessly choose another brand, basing their decision on a trade-off between cost and performance.

## **2. How you evaluate SEAT decision to enter Chinese market?**

Despite having already entered the Chinese market for more than two years, SEAT has still been unable to achieve its initial objectives. Even with a relatively easy goal of 4,000 units on the first year, sales have been declining quarterly, unlike the Chinese market that has grown in recent years, and has prospects of growth.

SEAT's decision to enter the Chinese market is not a surprise, since the market has high potential growth perspectives. However, SEAT's strategic entry was not adequate for the market.

The first problem was the brand strategic positioning in the market as a premium-imported brand. The production costs in Europe are higher than in China, mostly because of the labour costs that are lower in China. The costs also increase because of the costs associated to the import, such as import duties imposed by the government, transportation and distributions costs.

The second problem is SEAT's small portfolio in China. The company only offers three models, all of them hatchback versions, which are not in accordance with the preferences of the Chinese customer.

The last problem is the weak brand awareness. SEAT is still unknown to the Chinese customers and, as a premium, if the brand image is very weak, the customer perceived benefits would decrease. Consequently, the price that customers are willing to pay would also decrease.

## **3. Discuss the SEAT strategy and competitive positioning in China. In particular, what can SEAT do to become attractive?**

*"A firm profitability depends jointly on the economics of its market and its success in creating more value than its competitors. The amount of value that a firm creates compared to competitors depends on its cost and benefits positioning relatively to competitor"* (Besanko, 2013, p. 295).

SEAT decided to enter the Chinese market as an imported brand from Europe, belonging to the VW Group with high quality and trustworthiness, at a charging premium price which not all customers can afford. The products are a unique combination of Mediterranean design, dynamic performance and high quality German engineering and technology.

SEAT's core target group are mainly males under 30 with medium to high education, focusing only on two segments and with a narrow portfolio of only three models, all hatchback versions. SEAT pursued a differentiated focus strategy, which, according to Porter (1980), occurs when a firm *"creates superior economic value within a narrow set of industry segment"* (Besanko, 2013 p. 309).

As an imported brand from Europe, SEAT has higher production costs than its competitors that are already producing in China. The producing costs in China are much lower than in Europe, mainly because of the lower labour cost comparatively with the one in Europe. In addition, SEAT has extra costs associated with the imports, such as shipping costs, import duties imposed by the Chinese government and distribution costs. Moreover, the brand still has a weak brand awareness in China, as SEAT is still unknown to Chinese customers.

In order to become more attractive, SEAT should reposition in the market, and pursue a benefit leadership strategy. According to Porter (1980), a company can pursue a benefit leadership by matching the competitors' prices and sell more than they do, or by charging a higher price and attain higher price-cost margins than its competitors.

Consequently, SEAT should start producing in China with the help of the VW Group expertise and partnerships. In addition, reducing the production costs, SEAT would also cut all the shipping cost, import duties and distribution costs.

Furthermore, the company would probably not have to invest in infrastructures. SEAT could start producing with the other VW Group brands, since one of the main resources of the VW Group is its modular strategy. This modular platform allows VW Group plants becoming multi-brand

facilities, producing several models from different brands on the same line, switching production every time the company so wishes.

By starting the production in China, SEAT could also reduce the automobile prices, becoming more competitive comparing to all of its competitors in China and, consequently, more attractive to customers who would perceive more affordable prices.

Additionally, the brand should also offer more and different models, or continue to offer these three models, but with more version options, such as the notchback. As stated earlier, the notchbacks versions are the best sellers of sedans (Table1), clearly showing that the Chinese consumer's preference goes for this type of car.

As a final point, SEAT needs to expose the brand more, creating a strong brand awareness in China. This could, probably, be done through the investment in campaigns and introducing SEAT as a VW group brand, since the group is already established in this market. A brand with a strong image and reputation is more desirable to the customer. Consequently, there is an increase in the perceived benefit on the part of the customer, which is the consumer willingness-to-pay for a product (Besanko, 2013, p. 296).

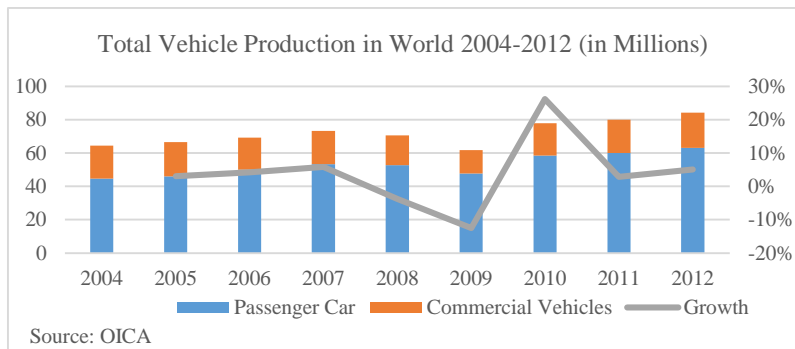
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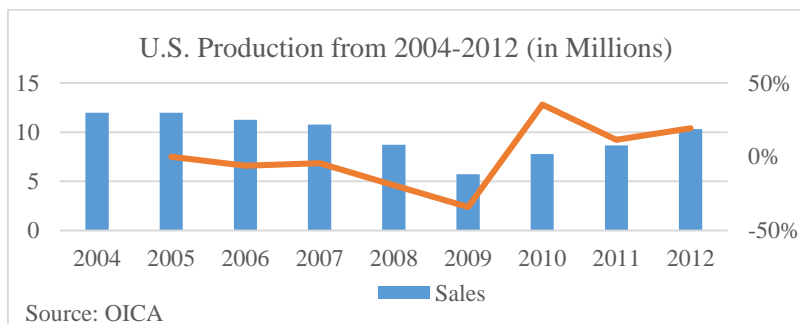
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## APPENDIXES

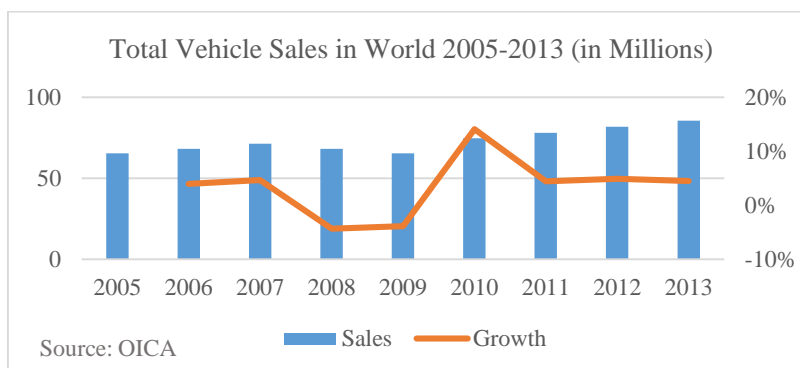
### Exhibit 1



### Exhibit 2



### Exhibit 3



### Exhibit 4



## Exhibit 5

Vehicles Sales in China by Segment 2005-2012									
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Commercial Vehicle	1 787 088	2 040 011	2 493 990	2 624 893	3 313 479	4 304 142	4 032 698	3 811 195	4 055 221
Passenger Car	3 971 101	5 175 961	6 297 538	6 755 609	10 331 315	13 757 794	14 472 416	15 495 240	17 928 858

Source: OICA

## Exhibit 6

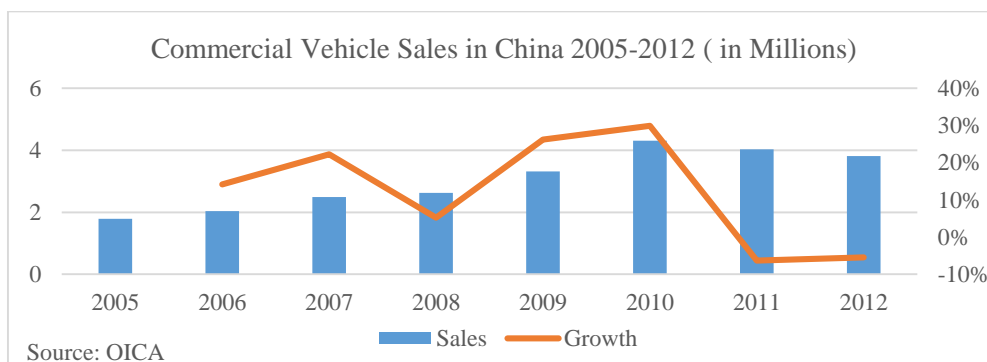


## Exhibit 7

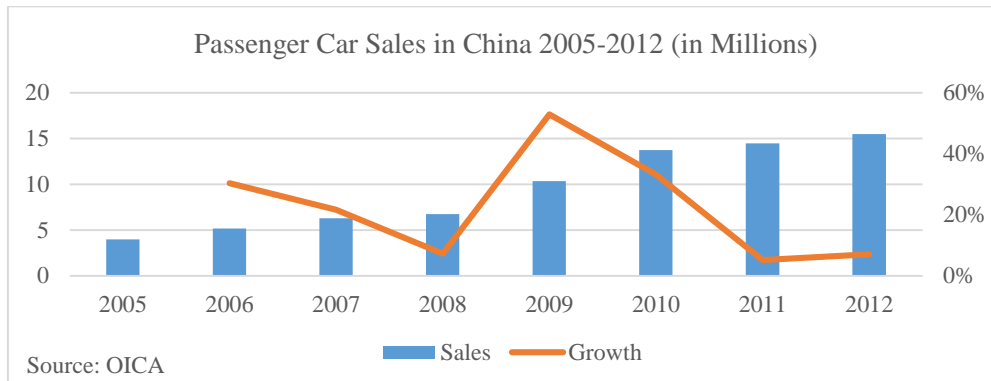
Passenger cars (per 1,000 people)								
	2003	2004	2005	2006	2007	2008	2009	2010
China	10	12	15	18	22	27	34	44
World	117	111	116	118	138	125	124	124
OECD members	387	392	394	395	400	405	405	402

Source: OICA

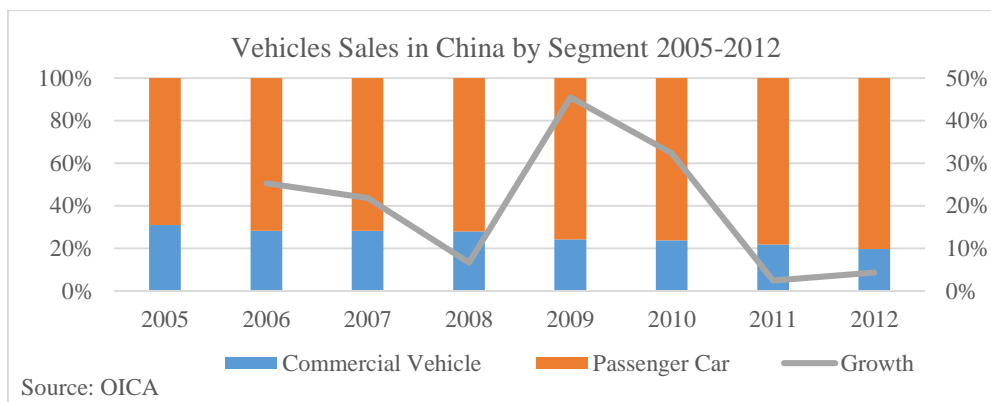
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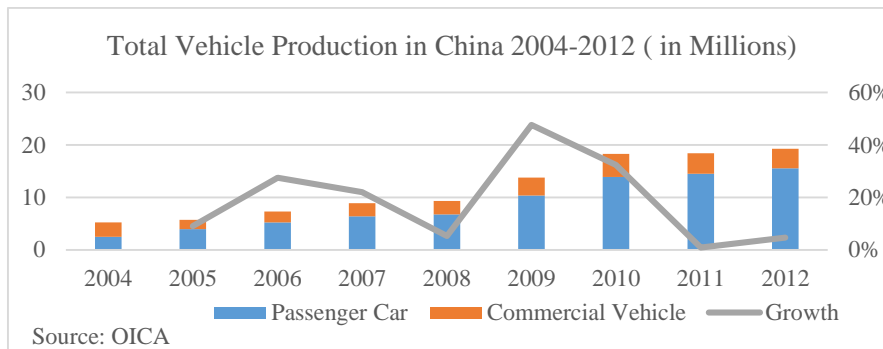
### Exhibit 9



### Exhibit 10



### Exhibit 11

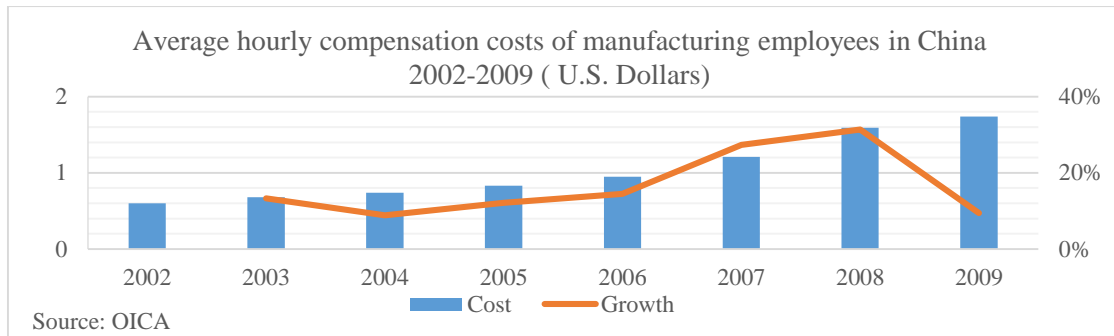


### Exhibit 12

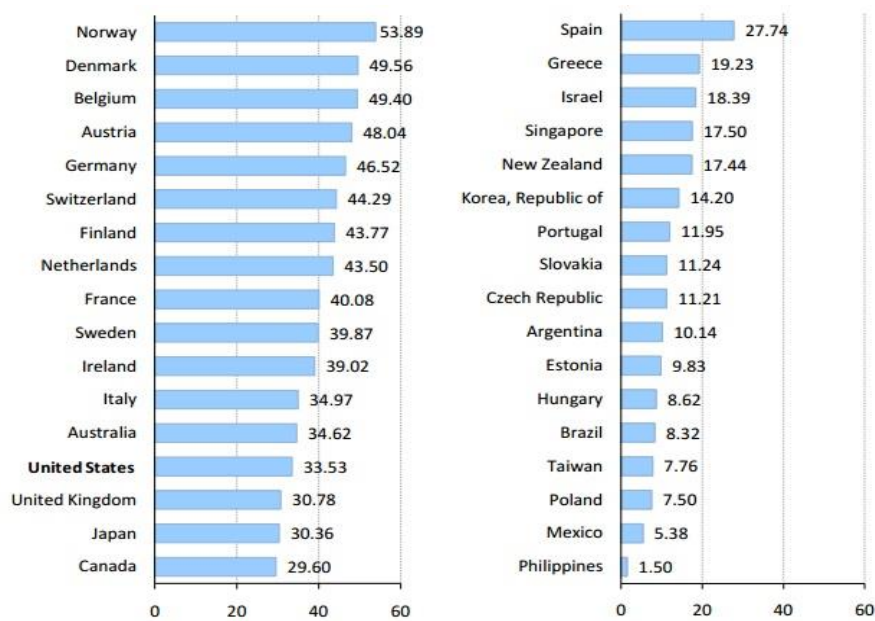
Total Vehicle Production by Biggest Countries Producers in 2010 (in Millions)	
China	18.2
Japan	9.6
U.S.	7.8
Germany	5.9

Source: OICA

### Exhibit 13



### Exhibit 14



Source: OICA

### Exhibit 15

China's 10 largest car manufacturers		
Name	Units 2010	Growth 2010
SAIC	3558400	31.53%
Dongfeng	2724800	36.05%
FAW	2558200	31.55%
Changan	2378800	27.22%
Beijing Auto	1489900	19.86%
Guangzhou Auto	724200	13.74%
Chery	682100	36.33%
BYD	519800	15.93%
Brilliance	501400	43.94%
JAC	458500	42.46%
Total	15596100	
Market share	86%	

Source: CAAM



## Exhibit 16

Sales by Top 10 Manufacturing International Groups		
	June 2013	June Market Share
Volkswagen Group	1628392	15%
Hyundai Grup	811341	8%
General Motors Group	784336	7%
Toyota Group	439861	4%
Renault-Nissan Group	391417	3%
Ford Group	330025	3%
Honda Group	309781	3%
PSA Group	279975	3%
BMW Group	20693	2%
Suzuki Group	124587	1%

Source: CAAM

**Table 1**

Top Best-selling sedans (hatchbacks or notchbacks) in 2013			
Rank	Models	Makers	Deliveries
1	VW Lavida, notchbacks	Shanghai-VW	374,056
2	Buick Excelle	Shanghai-GM	296,183
3	VW Sagitar	FAW-VW	271,188
4	VW Jetta	FAW-VW	263,408
5	Chevy Sail, notchbacks	Shanghai-GM	263,163
6	Nissan Sylphy	Dongfeng-Nissan	259,545
7	Chevy Cruze	Shanghai-GM	246,890
8	VW Bora	FAW-VW	237,156
9	VW Passat	Shanghai-VW	227,262
10	Ford Focus, hatchback	Chang'an-Ford	207,376
11	Hyundai Elantra Langdong	Beijing-Hyundai	206,348
12	Hyundai Verna	Beijing-Hyundai	197,482
13	Ford Focus, notchbacks	Chang'an-Ford	196,264
14	Emgrand EC7	Geely	193,210
15	VW Magotan	FAW-VW	187,173

Source: CAAM